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Breton, Albert

Government protection of
foreign investments

New York

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New York, April 1, 1919

Guaranty Trust Company of New York
140 Broadway, New York

Government Protection of Foreign Investments*

By ALBERT BRETON

Vice-President of the Guaranty Trust Company of New York

NOW that the war is practically over, the American people are already realizing that they will have a very vital economic question to answer, namely, What shall we do with our tremendously expanded productive capacity necessitated by the war?

There is but one solution to the problem—the extension of our existing foreign markets and the creation of new ones. But that cannot be accomplished as readily as it can be stated. This means that American manufacturers and exporters will have to meet the keenest possible competition.

VITAL FACTORS

Cost of production, therefore, will be a more vital element than ever before in our industry. And cost of transportation, overland and oversea, will be equally as important in determining the extent of our foreign commerce. There will be need for more standardized multiple production than in pre-war days, for co-operative buying and selling, for amalgamations, and for the elimination of economic waste and inefficiency.

To mention only one factor which contributes materially to our high costs of production, it is estimated by an expert of the Department of Labor that \$1,250,000,000 is lost annually to American manufacturers through preventable labor turnover.

There is urgent need also for redrafting on a more judicious basis our anti-combination laws, and to amend our shipping statutes in order that our rapidly growing merchant marine may compete on more equal terms with British, Japanese, Scandinavian, and other foreign shipowners, whose freight rates are far below those possible for American owners, under existing regulations and restrictions.

If the American merchant marine is to fulfil its great promise, the government must relinquish control of the merchant shipping of the country; either government subsidies or discriminatory pooling in favor of American shipping should be adopted; there

should be an effective co-ordination of rail, inland-water, and ocean transportation facilities in conducting foreign trade, and through bills of lading from American producing points to foreign destinations should be adopted on a much larger scale than heretofore.

WHY WE MUST INVEST ABROAD

And there is need, also, for a realization by the American people of the fact that if we are to hold our position of financial and industrial leadership we must become foreign investors.

Before our participation in the war we bought back from Europe between \$2,000,000,000 and \$2,500,000,000 of American securities held abroad, and through private channels lent various belligerent governments probably \$2,000,000,000. After we entered the conflict, we advanced the Allies approximately \$8,000,000,000, in the form of loans, from the United States Government. So, Europe owes this country in excess of \$10,000,000,000, upon which there will be an annual interest charge of about \$500,000,000. When we consider that in addition there is an enormous trade balance in our favor and that Europeans no longer own our securities from which they derived a lucrative income, we can appreciate the serious financial problem which confronts not only those countries but likewise our own.

We have an abundance of gold; in fact, we have a reserve amounting to more than one-third of the total gold coin and bullion of the world—far more than any nation ever before possessed. Therefore, we do not need Europe's gold in settlement of its indebtedness to us; and, for the purpose of curtailing whatever unavoidable inflation was incident to war, we do not want more gold.

We do not need Europe's products in anything like the quantity which would enable her to reduce materially the enormous credit balance in our favor. As a consequence, we must supply credits for the sale of American goods in Europe by the sale in

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America of foreign securities or by the establishment of foreign credits in large quantities. And the money due us in other countries will most probably have to be invested heavily in those countries.

The greater part of these prospective foreign investments which, of course, be placed through our banks, will, fortunately, have anticipated the economic and financial trend of post-war days and are branching out all over the world to render service commensurate with our new international position.

MORAL SUPPORT OF GOVERNMENT IMPERATIVE

But if our banks are to afford the American people adequate foreign investment service they should have the support and co-operation of our Government, and our investors in foreign securities should depend on the moral backing of our Government to protect them.

A committee on foreign securities has been formed in New York under the auspices of the Investment Bankers' Association. It consists of representatives of issuing houses, and will seek to protect the interests of those holding foreign securities. But the moral support of the Government is absolutely essential to obtain the full protection needed by our foreign investors, who will be far greater in number than ever before and who will represent, directly or indirectly, practically every element in our body politic.

A policy of economic and financial imperialism on the part of the United States Government should not be advocated, far from it—for such a policy would inevitably lead soon or late to political imperialism, and that would be fatal not only to our Government but also to the interest of our foreign investors. We cannot ask the Government to give its moral support to those Americans or those promoters working under our flag who would seek, for selfish reasons, to exploit other peoples; but the Government's moral support should be granted freely to our citizens legitimately engaged in developing the resources and industries of other countries by means of American capital and labor.

A DUTY RATHER THAN AN OPPORTUNITY

Upon any principle of morality which we would recognize we could not avoid the so-called opportunity even were our bankers, our business men, and the great body of our people so inclined. In other words, what is presented is an obligation rather than an opportunity. We have been caught up in world forces over which we have had no control and the position which we occupy is the result of the operation of fundamental economic laws to which we can

oppose no barrier. Under the circumstances we can no more refuse to give to the needy nations the things which we have and to take in exchange their evidences of indebtedness than healthy soil can refuse to give life and sustenance to the tree that is planted in it.

It is upon such a recognition of our obligations that we have passed from a country provincially independent in its attitude toward the difficulties and the attainments of others to one bound up with the purposes and hopes of all the rest, and our representatives now sit in council with theirs to determine what are to be the principles upon which a new international community shall be based and by what arrangements permanent peace and advantageous intercourse are to be preserved. And those American representatives will fail finally in all their plans unless they take cognizance of the fact that in some definite and unequivocal manner the rights of the American investors, who place at the disposal of other nations the means of rehabilitation, who enlarge the opportunities of those nations to exploit their resources for their own benefit and the benefit of the world at large, must be protected against the possible consequences of such political and social realignments as they sanction. Such a moral protection and official approval would not only put our foreign trade on a proper business basis but would lead also to unlimited impulses of humanity by the American people.

All indications now point to the establishment of many new nations in Europe and the Near East as a direct result of the war. As an indirect result, we may expect to have readjustments in China and Siberia. The apportionment of German colonies in Africa and the South Seas, the elimination of German influences in South America, and the situation in Mexico may each in turn conceivably raise questions that will be dealt with more or less in detail by the Peace Conference. Whatever the result of discussions as to self-determination, as to constitutions, as to internal affairs or external relations, as to leagues of nations or balances of power, certain it is that the financial and industrial power of America will be drawn upon eventually to bring order out of chaos. Political arrangements will not feed and clothe and shelter the distressed, or set them upon the way to recovered strength without that economic and friendly aid which we have the means, and now feel under compulsion, to give. Therefore, it is of the very essence of justice that those who propose, in behalf of all the nations, to secure freedom and promote prosperity for themselves and others, shall insure protection to those whose voluntary assistance may lead such proposals to yield something beyond mere existence. The people of America who under-

stand the obligation that has been laid upon them will be very bitterly and rightly disappointed, if, by any lack of foresight or appreciation, they are deprived of that Government protection for their foreign investments which is to be accorded to their persons and their ideas, and should be embodied in the international settlement about to be adopted.

Granting that security of American trade in foreign lands, as well as the profits and savings of our capital and our labor abroad, may be in principle established through international agreement, there still remains the need of assurances at home. In no field of activity is it more necessary that all leading political parties should have a policy upon which all of our people can rely, not merely for a day or for the period of one administration, but permanently. A general understanding by all voting classes that our Government believes in and intends to adhere to a policy of protection to investments made abroad would open up a field for just such a general participation in the flotation of safe and attractive foreign securities as has been stimulated by our Liberty Loan campaigns. No one will seriously contend that the whole power and influence of our Government should upon every occasion be brought to the support of any foreign investment made by its citizens, but during the war our Government has in such a way shown its ability to suppress or to guide the investments of its citizens in foreign securities as to suggest a programme for the future under which both the nation and the individual would be protected. By giving its approval to financing of foreign war loans the Government has virtually guaranteed the protection of those who participated in them, and surely some similar arrangement could be worked out for peace times that would give assurances to legitimate enterprises.

There can no doubt that the investing habit has been firmly established in this country. With only 300,000 bondholders of all classes at the beginning of the war and more than 20,000,000 now, there has been achieved a record full of inspiration for the future. Already the idea that the foreign obligations, held by the Government against advances, might well be consolidated and converted into some form of long-term bonds to be sold in the open market, has been favorably received. Our banks are having no difficulty in obtaining a wide distribution for the notes and bonds issued by domestic corporations, and it looks as though those of duly approved foreign governments, municipalities, and private concerns will be taken similarly. Here is a tendency that should be fostered both for our own benefit and

that of other countries. The failure on the part of our Government to encourage it may be a grave mistake. Now is the time to act, unless we prefer to overlook our present opportunities and let them drift to those who wisely knew how to take advantage of them before the war.

WORLD PROSPERITY NECESSARY

Finally, if we have learned any lesson from this war, surely we have been awakened to the realization that no nation can live unto itself any more than a man can live unto himself. Whatever affects the prosperity or happiness of one nation affects in some degree the prosperity and happiness of other nations. And, therefore, it is to the benefit of all to help make each nation as prosperous as possible.

Prosperity and happiness, however, are not possible without stable government. There are many historical examples of that fact, but none is so impressive as the existing conditions in Russia and Germany, or, nearer home, in Mexico. Compare Canada on our north with Mexico on our south, and the contrast between the results of stable government and continual internal turmoil is convincing enough. Then consider our relations with Canada and those with Mexico.

Does any thinking American believe that the United States Government should withhold its moral influence in the interests of stable government anywhere in the world on the theory that we are not our brother's keeper? May we not rely on our Government for the judicious exercise of such influence? We entered the World War for the avowed purpose of making the world safe for democracy, but the world cannot be considered safe for democracy when anarchy or chaos prevails anywhere in the world. It will not be necessary to continue our military operations abroad, but our Government can continue its moral and economic fight for world-wide peace, even after the adoption of the final peace terms. It is in this unselfish spirit, and not in behalf of "dollar diplomacy," that we should expect the United States Government to co-operate with and protect the interests of American foreign investors. There are few better means for rendering economic assistance to mankind; for American capital invested abroad is performing the invaluable service of helping other peoples to help themselves—and that is as truly humanitarian work, in a broad, practical sense, as it is good business. It is even a patriotic duty, if we wish our flag admired and respected on the commercial fields as it has been honored and victorious on the battlefields of Europe.

9 March, 1920 - C.R.W.

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